

DEPARTMENT OF NATIONAL DEFENCE  
MINISTÈRE DE LA DÉFENSE NATIONALE

IAC Intelligence Report # 68/88.  
China: National Peoples  
Congress Endorses Reform

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CHINA: NATIONAL PEOPLE'S CONGRESS ENDORSES REFORM

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CHINE: LE CONGRÈS POPULAIRE NATIONAL SOUSCRIT À LA RÉFORME

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**CE DOCUMENT PEUT FAIRE L'OBJET D'UNE EXCEPTION OBLIGATOIRE EN VERTU DES LOIS SUR L'ACCÈS À L'INFORMATION ET SUR LA PROTECTION DES RENSEIGNEMENTS PERSONNELS. AUCUNE DÉCISION RELATIVE À UNE REQUÊTE DE COMMUNICATION NE POURRA ÊTRE PRISE SANS LA CONSULTATION PRÉALABLE DU SECRÉTAIRE ADMINISTRATIF DU COMITÉ CONSULTATIF DES RENSEIGNEMENTS.**

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**CHINA: NATIONAL PEOPLE'S CONGRESS ENDORSES REFORM**

**Highlights**

- ° The recently concluded National People's Congress (NPC) adopted the general objective of strengthening reform over the next five years. (C)
- ° Changes made at the NPC to the constitution and the approval of a long overdue enterprise law, which is designed to reduce party interference in decision-making, should help to give greater legitimacy to the reform program. There were few new initiatives on other key reform issues. (C)
- ° In supporting a cautiously reform-oriented development plan at the NPC, the Chinese leadership is hoping to achieve the difficult goal of raising living standards while still maintaining economic stability. The government may also be criticized over its coastal development policy as regional income gaps continue to rise. (C)
- ° A number of important appointments were made during the NPC, including confirming Li Peng as Premier and electing General Yang Shangkun as China's President. A new, younger and generally more professional State Council was also elected and is expected to be more pragmatic in its policy orientation. (C)
- ° Top priority will be given to accelerating agricultural development. An ambitious and potentially costly plan was outlined to increase grain output to 500 million metric tonnes (mmt) by the year 2000, an average annual increase of 8 mmt. But China's growing grain demand should result in continuing grain imports. (C)

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**CHINE: LE CONGRÈS POPULAIRE NATIONAL SOUSCRIT À LA RÉFORME**

**Points saillants**

- ° Le Congrès populaire national (CPN), qui vient de s'achever, s'est donné pour grand objectif de consolider la réforme au cours des cinq prochaines années. (C)
- ° Les changements apportés à la constitution au CPN et l'approbation de la loi sur l'entreprise qui se faisait attendre depuis longtemps et qui vise à limiter l'ingérence du Parti dans la prise de décisions devraient aider à donner une légitimité plus grande au programme de réforme. Il y a eu peu d'initiatives nouvelles en ce qui concerne les autres points clés de la réforme. (C)
- ° En souscrivant à un plan de développement prudemment axé sur la réforme, les dirigeants chinois espèrent atteindre leur objectif qui est de relever le niveau de vie tout en gardant à l'économie sa stabilité, ce qui ne sera pas facile. Le gouvernement risque aussi de faire l'objet de critiques relativement à sa politique de développement côtier, l'écart continuant à se creuser entre les régions au niveau des revenus. (C)
- ° Le CPN a été marqué de quelques nominations importantes, dont la ratification de la nomination de Li Peng au poste de Premier ministre et l'élection de Yang Shangkun à titre de président de la Chine. Il a aussi donné lieu à l'élection d'un Conseil d'État plus jeune et généralement plus chevronné dont l'action politique devrait être plus pratique. (C)
- ° La priorité absolue sera donnée à l'accélération du programme de développement agricole. On a tracé les grandes lignes d'un plan ambitieux et potentiellement coûteux visant à porter la production céréalière à quelque 500 millions de tonnes métriques (mtm) d'ici l'an 2000, à raison d'une augmentation annuelle de 8 mtm. Les importations céréalières chinoises devraient, toutefois, se poursuivre, la demande allant en augmentant. (C)

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1. China's recently concluded National People's Congress (NPC) reaffirmed support for the reform-oriented plan endorsed at last fall's Party Congress. During the March 25 to April 13 parliamentary meeting, Premier Li Peng reported that speeding up and deepening reforms will be the general objective over the next five years. At the same time, however, he also cautioned that greater care should be taken to promote domestic economic stability. Changes made to the constitution and the approval of a long overdue enterprise law, which is designed to reduce party interference in decision-making, should help to give greater legitimacy to the reform program. There was little progress on other key reform issues, most notably on further price decontrol. (C)

2. In keeping with the leadership's promise of more openness in government, the NPC was characterized by unusually frank discussion and debate among delegates over government policy proposals. While important decisions were undoubtedly made previous to the NPC, the government's tolerance of criticism and its willingness to listen to suggestions helped to reduce the image of China's parliament as simply a "rubber stamp". (C)

#### **Key Appointments Made**

3. A number of important, although not surprising, senior appointments were made during the NPC. Li Peng was confirmed as Premier, while China's top soldier, General Yang Shangkun, replaces Li Xiannian as the country's State President. A number of new appointments were also made to the State Council, resulting in a younger, and generally more professional, inner cabinet which is expected to be more pragmatic in its policy orientation by dealing more with practical issues rather than ideology. (C)

4. The NPC was the first major forum for Premier Li Peng to demonstrate his leadership capabilities. His presentation of the government work report was upstaged to some extent by Party Chairman Zhao Ziyang's major policy speech at the party plenum immediately preceding the NPC. This was the first time since 1978 that the party meeting and the NPC had been so closely scheduled. Zhao may have wanted to emphasize that he still plays a major role in influencing economic policy, despite his recent move from the government to the top party post. (C)

5. There were reports of behind the scenes disagreements between Li and Zhao over the correct speed of introducing new reforms, with Li apparently favouring a more cautious approach. No sign of disagreement within the leadership was, however, allowed to surface at the NPC, which was for the most part a carefully staged affair. (C)

#### **Growing Concern over Inflation**

6. The government work report presented at the NPC gave a frank assessment of China's economic achievements and problems over the past five years, and set out policies and objectives for the coming five years. While the positive role of reforms in improving the population's standard of living was noted, the report also acknowledged that serious economic problems had accompanied reforms, in particular higher inflation. Excessive price increases were pinpointed as the outstanding social and economic problem facing China today. While China's official inflation 000141

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has been only 7.3 percent, in some urban centers it was twice this level. Although further price increases are felt to be inevitable, the government plans to moderate inflation mainly by managing a step-by-step increase in prices, with less emphasis on further price decontrol. In an effort to prevent a deterioration in living standards, selected subsidies also will be introduced in order to help offset higher planned prices for some foodstuffs. (C)

**Greater Priority to Agriculture**

7. A key feature of the government's plan over the next five years will be to give higher priority to increasing agricultural output, in particular grain production. Recent disappointing grain harvests and the politically motivated desire to make China self-sufficient in grain led to support for the proposal that agriculture should be the "foundation of long-term stable growth of the entire national economy". The government plans to increase grain prices, to expand agricultural investment, and to improve fertilizer distribution and production. An ambitious target of 500 million metric tonnes (mmt) of grain is set for the year 2000, an annual average increase of eight mmt. (C)

8. Other major measures to support growth include accelerating the development and application of science and technology and strengthening management reform, and particularly the speeding up of the development of the export-oriented economy in the coastal regions. In order to promote economic stability, a relatively moderate average annual growth rate of 7.5 percent is projected for the next five years. This goal can probably be attained, given the average growth rate of just over 11 percent for the past five years. Yearly fluctuations in growth rates are probable as the leadership continues to experiment with new policies. (C)

**Greater Legitimacy for the Reform Program**

9. Several pieces of important legislation were passed during the NPC which should help to give greater legitimacy to the economic reform program. After nine years of heated debate, a long overdue enterprise law, which is designed to reduce party interference in factory manager decision-making, was finally passed. It was more of a compromise document than some reformers had hoped for. The approval of this law paves the way for the introduction of a bankruptcy law. Changes to the state constitution were made to safeguard the legal position of private firms. The constitution was also modified to legalize the transfer of land-use rights, a measure which should allow for greater efficiency in farming by legitimizing the formation of larger land holdings. The NPC also approved a proposal, with some modifications, to streamline government departments under the State Council, as part of its effort to promote greater efficiency in the badly overstaffed bureaucracy. This trend towards the codification of Chinese economic law should provide some assurances to foreign businessmen in their dealings with Chinese authorities and enterprises. (C)



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## Major Challenges Ahead

10. In supporting a cautiously reform-oriented development plan, the leadership is hoping over the longer run to raise living standards substantially while still maintaining economic stability. But progress towards modernization probably will continue to be slow. The government will face further difficulties in implementing reforms given the lack of understanding of new policies and the shortage of skilled managers. Government bureaucrats are likely to continue to resist implementing measures that could undermine their privileged positions. (C)

11. Given recent problems in raising grain production, the leadership may also face difficulties in achieving its ambitious target of increasing grain production to 500 mmt. This goal also may be costly both in terms of higher agricultural investment and subsidies. Some Chinese experts claim that it is unrealistic to expect a repeat of the rapid increase in agricultural output experienced in the early 1980s because of the difficulties in expanding arable land significantly and the limitations on further improvements in agricultural technology. In any event, if low international grain prices continue, it might be more rational to import grain and to put scarce resources into other sectors such as energy and transportation. (C)

12. A growing problem facing the leadership will be the increasing income gap between the coastal areas and the poorer interior regions. Delegates to the NPC have already complained about income disparities and called on the government to provide more assistance to poorer provinces. Per capita income in coastal areas is at least 50 percent higher than in the interior. The leadership has justified its coastal development policy by claiming that some areas must become rich before others. If the gap in living standards worsens, party hard-liners may, however, perceive this policy as diverging too far from socialist principles. (C)

## Implications

13. The higher priority for grain production means that China will try to depend more on domestic production to meet grain requirements, but the grain output goal may be overly ambitious. In any event, if international grain prices remain favourable, China's growing domestic demand for grain should result in continuing grain imports. More opportunities for foreign businessmen may arise in the coastal regions as China accelerates its coastal development policy. Reaffirmation of the open door policy bodes well for the continuing expansion of trade relations. It also indicates that China's leaders may have decided that it is time for China to take a larger part in world affairs. China's influence on the international scene will grow as China works discreetly to expand an already burgeoning trade relationship with traditional adversaries such as South Korea, Saudi Arabia and Taiwan. While Beijing will continue to depend on USA and Japan for technology, China will continue to strengthen its ties with USSR and Eastern Europe. (C)